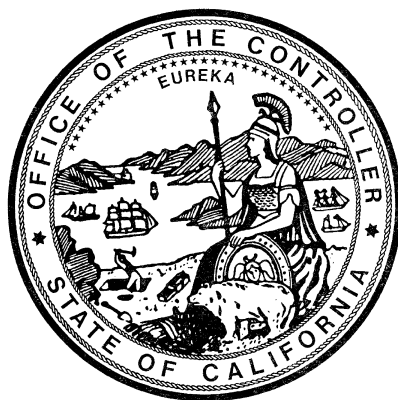


# **Guidelines for Compliance Audits of California Redevelopment Agencies**



California State Controller

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# Introduction

These Compliance Audit Guidelines have been prepared to assist independent auditors in developing a program for performing the legal compliance audit work that is necessary to issue a report on compliance with state laws, regulations, and administrative requirements governing activities of redevelopment agencies (RDA).

The laws and regulations governing redevelopment agencies are found in the Health and Safety Code, Section 33000 et. seq., and Title 25, Chapter 6, of the California Code of Regulations. Pursuant to Health and Safety Code Section 33080.1, every redevelopment agency shall have an independent financial audit performed annually in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. As such, the independent auditor will issue a report on legal compliance. A sample report is presented in Appendix A of this guide.

These guidelines are not intended to set limits on the extent of work to be performed or to be an all-inclusive manual of audit procedures. The decision to apply additional procedures should be based on a consideration of which procedures are sufficient to achieve the audit objectives. Terms such as “verify” and “test” are used to describe the general nature of audit procedures. However, as a practical matter, the practitioner must decide on the scope and method that is most appropriate in each circumstance. Therefore, auditors will exercise their professional judgment regarding the selection of auditing procedures. Additionally, there may be other laws or rules that apply to a particular agency that are not addressed in this guide and may be known only at local government levels. In all audits, the auditor must inquire about the existence of any special legislation that may materially affect the particular redevelopment agency under audit and consider its impact on the selection of audit procedures. There is no “safe harbor.”

Questions regarding these engagements and responsibilities should be addressed to the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants, 1201 “K” Street, Suite 1000, Sacramento, CA 95814, (916) 441-5351. They may also be directed to the State Controller’s Office, Division of Audits, 300 Capitol Mall, Suite 500, Sacramento, CA 94250-5874, (916) 324-8907. These guidelines are available on the State Controller’s Web site at <http://www.sco.ca.gov>.

Since the guidelines include only excerpts from the applicable code sections, the actual code sections should be consulted in determining the full agency compliance requirements. These laws are usually available in the library of the redevelopment agency or in the library of the community in which the redevelopment agency is located.

In determining compliance using Government Auditing Standards, all items of non-compliance must be reported in either an exception paragraph or separate listing. The auditor’s judgment will determine what effect these instances of non-compliance will have on the financial statement opinion issued.

Section 33080.1 of the Health and Safety Code specifies the proper distribution of the audit report. This distribution is the responsibility of the redevelopment agency.

# A. Financial Disclosure and Reporting

## Compliance Requirements

1. The agency is responsible for maintaining an accounting and reporting system that adheres to generally accepted accounting principles (GAAP) for governmental operations. The State Controller's Office prescribes a uniform system of accounts, which provides a basic outline of accounts and a fund structure. This system is flexible enough to allow modification for different situations, but contains the fundamental requirement that GAAP must be followed.
2. The agency must present an annual report to its legislative body and the State Controller's Office within six months of the end of a fiscal year (generally December 31). The annual report contains several items, including the independent auditor's reports.

## Audit Objectives

1. Render an opinion on the fair presentation and conformity to GAAP of the RDA's financial statements and notes to the financial statements in the agency's general-purpose financial statements. Present a full disclosure of the RDA's general-purpose financial statements.
2. Determine whether required reports for the legislative body and State Controller's Office were completed and submitted by the required time.

## Recommended Audit Procedures

1. Determine that an independent audit of the agency's financial statements was performed in accordance with *Government Auditing Standards*, established by the Comptroller General of the United States, and of generally accepted auditing standards, established by the American Institute of Certified Public Accountants. *AU 801*.
2. Verify that the financial disclosures are presented as a separate set of financial statements, with combining statements by fund for all project areas. *GASB Statement 14, paragraph 65*.
3. Verify that the Housing Fund has been established and is reported as a separate fund in the agency's financial statements. *Health & Safety Code §33334.3*.
4. Verify that the agency adopted a budget for the fiscal year being audited, and that it contained the agency's proposed expenditures, the proposed indebtedness to be incurred, and anticipated revenues. *Health & Safety Code §33606*.
5. Verify that the agency applies, in all material respects, the procedures for accounting and reporting, for purposes of annual reporting of financial transactions to the State Controller, as prescribed by the State Controller. *Government Code §53891, §53892, and §12463.3*.

*It may be helpful to review the State Controller's publication of its prescribed Uniform Accounting System for Redevelopment Agencies and the Annual Report of Financial Transactions of Community Redevelopment Agencies with filing instructions. The Uniform Accounting System requires that agencies report their financial information in a specified format with specified accounts. Although an agency's ongoing system may not use the same classifications or account titles, information reported in the Annual Report of Financial Transactions to the State Controller should be materially consistent with the agency's (audited) financial statements.*

6. Verify that the agency produced and submitted on a timely basis to its legislative body and the State Controller the following annual reports for the previous fiscal year. *Health & Safety Code §33080.1.*

*These reports are due six months following the end of the agency's fiscal year-end date. Also, items e, f, and g are new for 1998.*

- a. Independent auditor's report on financial statements;
- b. Independent auditor's report on legal compliance;
- c. Annual Report of Financial Transactions of Community Redevelopment Agencies (Fiscal Statement), *Health & Safety Code §33080.5;*
- d. Housing activities report, *Health & Safety Code §33080.4 and §33080.7;*
- e. Blight progress report (*specifies actions and expenditures made in the previous fiscal year to alleviate blight*), *Health & Safety Code §33080.4;*
- f. Loan report (*identifies loans (receivable) which equal or exceed \$50,000 and that were found by the agency during the previous fiscal year to have either defaulted or not complied with the terms of the agreements approved by the agency*), *Health & Safety Code §33080.4;*
- g. Property report (*describes properties owned by the agency and those acquired in the previous fiscal year*), *Health & Safety Code §33080.4.*

## B. Affordable Housing

### Compliance Requirement

The agency must set aside and use tax increment revenue for the purpose of increasing, improving, and preserving the community's supply of low- and moderate-income housing. Statutes ensure the availability of affordable housing funds, due to the potential negative side effect of displacing people or possibly destroying or eliminating available low- and moderate- income housing while undertaking improvement of blighted areas. Agencies must maintain separate accountability for the housing funds and report annually on their activities and status.

### Audit Objective

Determine whether the agency has complied with specific legal requirements regarding the Housing Fund, excess surplus, and housing assistance issues, and report all instances of non-compliance.

### Recommended Audit Procedures

#### *Housing Fund*

1. Verify that the agency has established a separate and distinct Housing Fund to account for this set-aside until used. *Health & Safety Code §33334.3.*

*A separate account or reservation of fund balance in another fund (other than the Housing Fund) does not meet this requirement. Each project area must be accounted for separately, but all project areas may be included in the Housing Fund. Note, however, that with the support of appropriate findings by resolution, agencies having multiple project areas may allocate less than 20% of tax increment from one project area for the housing set-aside if a comparably greater amount than 20% is allocated from another project area. Health & Safety Code §33334.3(i).*

2. Verify that 20% of the **gross** tax increment allocated to the agency was deposited in the Housing Fund prior to any deduction for administrative fees, pass-through payments to taxing entities, negotiated fiscal agreements and waivers, or other transfers from the balance of the tax increment allocated to the agency. *76 Ops. Cal. Atty. Gen. 137 (1993).*

*Confirm the tax increment with the county auditor and calculate the 20% allocation for each project area. In May 1998, Senate Bill 258 was signed into law by the Governor. This bill includes Health & Safety Code §33672.7, which mandates that on or before August 15 of each year, county auditors or other responsible county officers shall prepare statements that indicate the tax increment disbursement made for each project area in the prior fiscal year. If this information is not made available by confirmation, apply alternative procedures to determine the tax increment disbursed (review remittance advices, for instance).*

3. Verify that 20% of the gross tax increment revenues attributed to the merged redevelopment projects were placed in the redevelopment agency's Housing Fund for redevelopment plans merged after January 1, 1981. *Health & Safety Code §33487.*
4. If the agency deposited less than 20% of its gross tax increment revenue into the Housing Fund, verify the adopted exemption or deferral finding for the reduction. *Health & Safety Code §33334.2.*



5. Determine that interest earned from deposits of Housing Fund money was either deposited or accrued in the Housing Fund and that it is equitable and accurate insofar as its proportionate share of combined funds on deposit in interest bearing accounts. *Health & Safety Code §33334.3(b).*

*Exemptions are available to all agencies, although deferrals are available only to agencies having redevelopment plan adoptions or amendments dated before January 1, 1977. See Notes 1 and 2 on Affordable Housing.*

6. Verify that receipts to the agency for loans, advances, or grants made from the Housing Fund were deposited or accrued to the Housing Fund. *Health & Safety Code §33334.3(b).*
7. Verify that 20% of the gross tax increment revenue was deposited into the Housing Fund separately from the payment of any debt service or bond issue costs. *Poway Decision, Craig v. Poway (App. 4 Dist. 1994) 33 Cal. Rptr. 2d 528, 28 Cal. App. 4th 319.*

*To properly calculate the 20% deposit, the Housing Fund's debt service obligations or bond issue costs must not be deducted from the gross tax increment before calculating the deposit amount.*

8. If Housing Fund money or revenue was pledged as all or part of the collateral for a debt issuance made during the period being audited, verify that an appropriate amount of debt proceeds, in addition to the 20% of gross tax increment allocation, was deposited into the Housing Fund. *Poway Decision, Craig v. Poway (App. 4 Dist. 1994) 33 Cal. Rptr. 2d 528, 28 Cal. App. 4th 319.*

*For example, if an agency capitalizes its Housing Funds by pledging the set-aside of tax increment revenues to pay tax allocation bonds, then it must deposit 20% of the gross proceeds and record a like share of the issuance costs in the Housing Fund when bonds secured by the pledged funds are sold. Also, additional restrictions may apply to the use of tax exempt proceeds pursuant to the Internal Revenue Code. The auditor may wish to inquire from the agency's management or counsel about their consideration of the IRC's requirements.*

9. Determine whether planning and administrative expenditures were made from the Housing Fund. If these expenditures were made, verify that the agency has prepared a written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low- and moderate-income housing. Test the expenditures, as necessary, to verify their eligibility. *Health & Safety Code §33334.3(d).*

*This determination must be made annually in writing. Read the agency's written documentation. For a listing of eligible costs and a discussion on evaluating the amount spent, see Note 3 on Affordable Housing.*

10. If Housing Fund money was expended for on- or off-site improvements, determine that the expenditures were part of programs that directly resulted in construction or rehabilitation of affordable housing or eliminated specific conditions jeopardizing the health or safety of existing low- or moderate-income residents. *Health & Safety Code §33334.2(e)(2).*

*Agencies must report on- or off-site improvements in their annual reports submitted to the Department of Housing and Community Development (Schedule HCD-C, line 3e). Review a sample of expenditure documents to identify the program and obtain a claim representation as to their purpose. When Housing Fund money is used for new or substantially rehabilitated housing, the housing units must remain affordable to targeted income (very low, low, and moderate) households. Further, agencies must enforce the affordability for minimum time periods through imposition of covenants or restrictions. If the Housing Fund was used to assist in making affordable housing available, then perform procedure 13 below.*

11. If the agency used the Housing Fund for expenditures outside of the project area, determine that findings were adopted by resolution for any expenditure from the Housing Fund outside the project area in which they were generated. *Health & Safety Code §33334.2(g).*

*If an agency uses the Housing Fund for improvements outside of the related project area, it must justify (a finding) the use by showing that the expenditure resulted in a direct benefit to the respective project area in which the tax revenues were generated. The auditor need only test a finding by resolution establishing the agency's justification for existence, as a board's approval is considered final and conclusive.*

12. Determine that for properties held for five years or longer and acquired with Housing Fund money, the agency either has obtained, by resolution, an extension or has sold the property. *Health & Safety Code §33334.16.*

*Agencies must initiate activities to develop properties purchased with Housing Fund money within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. In no event may agencies hold properties for periods in excess of five years plus the period of their one-time extension. In the event that general development of the property for this purpose has not begun by the end of the original period (and no extension was approved); or physical development has not begun by the end of the extended period (if an extension was approved); or if the agency does not comply with this requirement at all, the property shall be sold and the money from the sale less reimbursement to the agency for the cost of the sale shall be deposited in the agency's Housing Fund. These general development activities may include, but are not limited to, zoning changes or agreements entered into for the development and disposition of the property.*

13. If the agency made, or assisted in making, housing units available during the period(s) being audited through the use of Housing Fund money, test contracts, agreements, or other records to determine that the agency imposed the appropriate affordability covenants for the requisite period of time on such units made available. *Health & Safety Code §33334.3(f).*

*See Appendix C, Housing Assistance, for information about the duration and enforcement of affordability covenants, targeted income households, and for a description of housing costs. Also, the test in the procedure may be coordinated with similar tests for Housing Assistance.*

***Excess Surplus*** (see Note 4 on Affordable Housing and Appendix B, Calculation Procedures and Samples)

1. Test the calculations of excess surplus (outlined in Appendix B) and that each year's excess surplus is accounted for separately as a part of, or in addition to, the Housing Fund. *Health & Safety Code §33334.12(b).*

*The agency must track each year's excess surplus to correctly determine the timing of expenditure or transfer mandates. Only tax increment revenue deposited into the Housing Fund during the four previous fiscal years (and not other revenues that accrued to the Housing Fund) is included when computing the sum. Also, only unspent debt proceeds remaining in the Housing Fund may be subtracted to adjust the unencumbered balance.*

2. Test encumbered funds to determine that they consist of unavailable assets or money that was committed exclusively pursuant to legally enforceable agreements or contracts for allowable expenditure. *Health & Safety Code §33334.12(g)(2).*

*Allowable expenditures can be only for the purposes of increasing, improving, or preserving the community's supply of low- and moderate-income housing, which is consistent with the stated purpose of the Housing Fund. The scope of these expenditures is detailed in Health & Safety Code §33334.2 and §33334.3. This is a legal compliance test that must be performed before, or concurrently with, recalculating the excess surplus, as described above and in Appendix B.*

3. Verify that the agency has instituted the required sanctions where excess surplus funds were not expended or encumbered within the statutory timeframe. *See Note 4 on Affordable Housing.*

***Housing Assistance (See Appendix C, Housing Assistance)***

1. Test the agency's system (procedures and activities) of monitoring the levels of available affordable housing to low- and moderate-income households. *Health & Safety Code §33418.*

*In accordance with the law, agencies shall require property owners or managers of such housing to submit an annual report to the agency. For rentals, this report must include the rental rate and income and family size of occupants, for each rental unit. For each owner-occupied unit, the report must include information as to whether there was an ownership change from the prior year and, if so, the income and family size of the owners. The income information shall be supplied by the tenant in a certified statement on a form provided by the agency. This statute also requires that information obtained by the agency in this regard be reported annually to the Department of Housing and Community Development and to the State Controller's Office.*

2. Determine whether the agency participated in making housing units available during the period(s) being audited for the purpose of meeting (counted as) a "Replacement Housing" requirement. Inquire of agency. *Health & Safety Code §33413(a).*

*Perform procedures 4, 5, and 6 if the agency was required to provide or did produce replacement housing units. Skip these procedures if replacement units were neither provided nor required. For Replacement Housing, participation may only include new or rehabilitated units.*

3. Determine whether the agency participated in making housing units available during the period(s) being audited for the purpose of meeting (counted as) a "Project Area Housing Production" requirement. Inquire of agency. *Health & Safety Code §33413(b).*

*Perform procedures 4, 5, and 6 if the agency was required to provide, did produce, or assisted in producing these housing units. Skip these procedures if Project Area Housing units were neither provided nor required. For Project Area Housing, participation includes any one of, or a combination of, new construction, substantial rehabilitation, acquiring affordability covenants for targeted income levels, arranging project financing, and imposing regulatory mandates or agreements, such as occupancy or plan approvals.*

4. If the agency participated in making housing units available for either Replacement or Project Area Housing purposes during the period(s) being audited, inquire or test appropriate records to ascertain which of the following funding sources the units were provided: 1) Housing Fund money or capital; 2) other redevelopment agency funds (non-Housing Fund); or 3) private or public developer or entity funds (non-agency).
5. If the agency assisted in making housing units available by regulation or agreement to targeted income households to meet its Replacement or Project Area Housing requirements during the period(s) being audited, inquire as to whether the units were developed inside or outside the project area. *Health & Safety Code §33413(b)(2)(A)(ii)*

*When counting the housing units toward its Replacement or Project Area Housing Production requirements, the agency may assist in making affordable housing available outside its project area. It may be financially favorable or cost effective outside. However, if the agency exercises this option, it must make two units available outside for each unit required inside.*

6. If the agency either made or assisted in making housing units available during the period(s) being audited to meet either Replacement Housing or Project Area Housing Production requirements, test contracts, agreements, or other records to verify that the agency imposed affordability covenants for the requisite periods of time on such units made available. *Health & Safety Code §33413(b)(2)(C) and §33413(c), operative 1/1/94 through 1/1/2001.*

## C. Five-Year Implementation Plans

### Compliance Requirement

Redevelopment agencies must produce Implementation Plans, in accordance with Health & Safety Code §33490 and §33413(b), for each project area every five years and have the first plan adopted by December 31, 1994, or within five years following the adoption of the redevelopment plan in cases under which the redevelopment plans were adopted on or after January 1, 1994. Each plan must contain certain items.

### Audit Objective

Determine that the agency, on or before December 31, 1994, and each five years thereafter, has adopted an implementation plan and that required references to specific goals and objectives of the agency and an annual housing program are contained in the implementation plan.

*The audit work required in this section represents procedures that a continuing auditor will most likely need to perform only once, rather than yearly, for a particular adopted implementation plan. To avoid redundancy of performing audit procedures in situations where a preceding auditor has performed sufficient testing of the plan, it may be possible to rely on the preceding auditor's work. For plans adopted prior to the current engagement and under circumstances in which the audit or examination was performed by another auditor, achieving this objective may be satisfactorily met by communicating with the predecessor auditor, supplemented by considering the need to apply one or more procedures that may involve either reviewing the auditor's working papers or extending tests of the plan in the current audit work.*

### Recommended Audit Procedures

1. Test the agency's documentation of its public notification of hearings.

*Examine evidence of notification. Procedures may also include legal representation. Also see Section E of this audit guide for further information regarding public notification requirements.*

2. Conduct a review of the plan to verify that its contents include the following elements. *(It may not be necessary to re-perform reading or inspecting a plan's contents each year on continuing engagements since the requirements have a five-year cycle.)*
  - a. Specific goals and objectives for the next five years;
  - b. Specific programs, including potential projects and estimated expenditures planned for the next five years;
  - c. Explanation of how the goals, objectives, programs, and expenditures will eliminate blight within the project area;
  - d. Explanation of how the goals, objectives, programs, and expenditures will implement the low- and moderate-income housing set-aside and housing activities;
  - e. Number of housing units to be replaced, constructed, substantially rehabilitated, assisted, destroyed, or made available through acquisition of covenants or other price restricting agreements;
  - f. Plan for using annual deposits to, and existing funds in, the Housing Fund;

- g. Identification of proposed locations for replacement housing if the planned project results in the destruction of existing affordable housing; and
  - h. Plan for meeting the Project Area Housing Production Requirement over a ten-year period.
- 3. Verify that adoption of the Implementation Plan was made by the date specified in the law.
- 4. Verify the date of adoption of the plan for meeting the Project Area Housing Production Requirement.

## D. Redevelopment Plans

### Compliance Requirement

The agency is required to have an adopted redevelopment plan to establish its authority for carrying out its activities. Outlined by law, the adopted plan must document certain information that defines the agency's activities and authority; that encompasses the requirements of, or conforms to, the community's general plan and its housing elements; and insofar as the community plan relates to the agency's named project area(s), that serves to eliminate blighted conditions.

### Audit Objective

Determine that the agency's redevelopment plan, amendments, and its provisions exist and have been adopted.

*Request that the agency tab the items you wish to review to minimize time. The audit work required in this section represents procedures that a continuing auditor will most likely need to perform only once, rather than yearly, as redevelopment plans function much like charter documents, establishing agency goals, powers, and limitations to conduct their activities over an extended period of time. To avoid redundancy of performing audit procedures in situations where a preceding auditor has performed sufficient testing of the plan, it may be possible to rely on the preceding auditor's work. For plans adopted in a fiscal period prior to the current engagement and under circumstances in which the audit or examination was performed by another auditor, achieving this objective may be satisfactorily met by communicating with the predecessor auditor, supplemented by considering the need to apply one or more procedures that may involve either reviewing the auditor's working papers or extending tests of the plan in the current audit work. In all cases, auditors should be familiar with the applicable redevelopment plan.*

### Recommended Audit Procedures

1. Identify the date in which the plan and its amendments (if any) were adopted and classify them by: pre -1977; post -1976; or merged.

*Obtain a copy of the legislative body's ordinance adopting the redevelopment plan and amendments, if any were made.*

2. For plans or amendments, if any, adopted on or before December 31, 1993, read the plan to verify each of the following.
  - a) The time limit on establishing loans, advances, and indebtedness has been set not to exceed 20 years from the adoption of the plan or January 1, 2004, whichever is later.
  - b) The agency has set a limit for the effectiveness of the plan, not to exceed 40 years from the adoption of the plan or January 1, 2009, whichever is later.

*If project areas merged or were amended to add new territory prior to December 31, 1993, it will be necessary to verify that these limitations were set individually for each merged plan. These time limits shall commence, with respect to the plan, from the date of the adoption of each plan and, with respect to the added territory, from the date of each amendment. Health & Safety Code §33333.6(a), (b), and (d).*

3. For project area plans or amendments, if any, adopted on or after January 1, 1994, read the plan to verify the following. *Health & Safety Code §33333.2.*

- a) The agency has set a time limit (not to exceed 20 years from the adoption of the plan) on establishing loans, advances, and indebtedness.
  - b) The agency has set a time limit (not to exceed 30 years from the adoption of the plan) on the effectiveness of the plan.
  - c) The agency has set a time limit (not to exceed 45 years from the adoption of the plan) to repay indebtedness.
  - d) The agency has set a time limit (not to exceed 12 years from the adoption of the plan) for commencement of eminent domain proceedings.
4. For redevelopment plans or amendments, if any, adopted during the period being audited, verify the redevelopment plan was accompanied by a report to the legislative body containing all of the following information. *Health & Safety Code §33352.*
- a) The reasons for selecting the project area, which identifies specific projects that describe how they will eliminate the blighted conditions.
  - b) A description of conditions existing in the project area that causes it to be blighted. *See Note 1 on Redevelopment Plans.*
  - c) An implementation plan. *(The contents of an implementation plan are outlined in Section C of this audit guide.)*
  - d) An explanation of why the elimination of blight and the redevelopment of the project area cannot reasonably be expected to be accomplished by private enterprise acting alone or by the legislative body's use of financing alternatives other than tax increment financing.
  - e) The proposed method of financing.
  - f) Reports, plans, recommendations, and summaries dealing with relocation.
  - g) A neighborhood impact report, if the project area contained low- or moderate-income housing.
  - h) The report by tax officials on the base year assessment roll, as described in and pursuant to *Health & Safety Code §33328.*
5. For redevelopment plans or amendments, if any, adopted during the period being audited, verify the legislative body's ordinance adopting the redevelopment plan and that provisions of the ordinance include the following. *Health & Safety Code §33365 and §33367.*
- a) The purposes and intent of the legislative body with respect to the project area;
  - b) The plan incorporated by reference;
  - c) A designation of the approved plan as the official redevelopment plan of the project area;
  - d) The findings and determinations of the legislative body that:
    - The project area is a blighted area, the redevelopment of which is necessary to effectuate the public purposes declared in this part;



- The redevelopment plan would redevelop the area in conformity with this part and in the interests of the public peace, health, safety, and welfare;
  - The adoption and carrying out of the redevelopment plan is economically sound and feasible;
  - The redevelopment plan is consistent with the community's general plan, including the community's housing element (*See Note 2 on Redevelopment Plans*);
  - The carrying out of the redevelopment plan would promote the peace, health, safety, and welfare of the community and would effectuate the purposes and policy of this part;
  - The condemnation of real property, if provided for in the redevelopment plan, is necessary to the execution of the redevelopment plan and adequate provisions have been made for payment for property to be acquired as provided by law;
  - The agency has a feasible method or plan for the relocation of families and persons displaced from the project area, if the redevelopment plan may result in the temporary or permanent displacement of any occupants of housing facilities in the project area;
  - Provision for decent, safe, and sanitary dwellings equal in number to, and available to, the displaced families and persons and reasonably accessible to their places of employment at rents or prices within the financial means of the families and persons displaced from the project area;
  - All noncontiguous areas of a project area are either blighted or necessary for purposes of obtaining tax allocations from the area, pursuant to Health & Safety Code §33670, without other substantial justification for their inclusion;
  - Inclusion of lands, buildings, or improvements, which are not detrimental to the public health, safety, or welfare, is necessary for the effective redevelopment of the area of which they are a part; and
  - The elimination of blight and the redevelopment of the project area could not reasonably be expected to be accomplished by private enterprise acting alone and without the aid and assistance of the agency.
6. For redevelopment plans or amendments, if any, adopted during the period being audited, verify that the agency and legislative body held public hearings prior to approving the redevelopment plan and that a proper public notice was made. *Health & Safety Code §33348 and §33360.*
7. For redevelopment plans or amendments, if any, adopted during the period being audited, verify the agency adopted rules for property owner participation in connection with the plan and that these rules have been made available for public inspections. *Health & Safety Code §33339.5 and §33345.*
8. For redevelopment plans or amendments, if any, adopted during the period being audited, determine from reading the plan or inquiry whether there were any objections raised by property owners or taxing entities. Read the plan to verify the legislative body responded in writing to objections made by property owners or taxing entities. A plan may be adopted only after consideration of the objections and adoption of written findings at a subsequent date not less than one week after the time the hearing on objections is commenced. *Health & Safety Code §33363.*

## E. Public Notification

### Compliance Requirement

Redevelopment agencies must ensure that the general public is provided access to agency records, in accordance with the Public Records Act (Government Code §6253), and meetings, in accordance with the Ralph M. Brown Act (Open Meetings Law, Government Code §54950 et seq.).

### Audit Objective

Determine whether agency records are accessible to the public and determine whether the public is notified of agency meetings.

### Recommended Audit Procedures

1. Test the agency's procedures for maintaining minutes or other records of the proceedings of public meetings and that these are available for public inspection. *Health & Safety Code §33125.5.*
2. Test the agency's procedures that provide the public with its notification of public hearings or meetings to verify that they include proper and timely mailings, newspaper publication or permanent-place postings for the requisite time periods and frequency preceding agency-related actions or meetings. *Government Code §6040, §6040.1, §6040.5, §6041, §6041.1, and §6042.*

*The agency or legislative body is required by law to maintain records of public notifications and must have the notifications published in newspapers of general circulation that meet the criteria and definition of general circulation newspapers.*

3. Test notifications for inclusion of required information, such as the time and place of hearings, boundary maps, and both legal and non-technical descriptions of proposal(s), as necessary to appropriate individuals. *Health & Safety Code §33349.*
4. If the agency received findings regarding the detrimental effect of a redevelopment plan on either schools or fire districts, verify that the agency conducted a public hearing. *Health & Safety Code §33445.5 and §33445.6.*
5. If the agency leased or sold property during the period being audited, test the agency's notification procedures and recordation of meetings to verify the public's notification disclosure. *Health & Safety Code §33431 and §33433.*
6. Test the agency's procedures in making financial public disclosure statements available to the public.

*See Section F of this audit guide for further information regarding conflict of interest and financial disclosure requirements.*

## F. Conflict of Interest

### Compliance Requirement

A redevelopment agency, as a local government agency, is subject to the Political Reform Act of 1974 (the Act), and must adopt and promulgate a conflict of interest code that conforms to the requirements established by the Fair Political Practices Commission. These agency codes must enumerate the positions that involve the making of decisions that may potentially have a material effect on a financial interest. Additionally, the codes must specify types of financial interests, contain prohibitions, and require filing of annual public disclosure statements.

### Audit Objective

Determine that the agency has in effect personnel rules and regulations adopted for employees of the agency that include an established conflict of interest code and other procedures regarding use of funds, hiring and firing, neglect of duty or misconduct in office, and the inclusion of public disclosure filings for key individuals in connection with the agency.

### Recommended Audit Procedures

1. Read or obtain a copy of the agency's adopted conflict of interest code to verify its existence. *Government Code §87302 and Health & Safety Code §33126.*
2. Read the conflict of interest code to verify the agency identifies persons and positions of authority or influence that are subject to the Act and other state and local governmental law. *Government Code, Title 9, Chapter 7, Conflicts of Interest.*

*The requirements for conflict of interest disclosure apply to all public officials involved in making decisions regarding redevelopment projects. These positions include, but may not be limited to, public officials within the agency, members of the local legislative body, planning commissioners, key staff members, and members of a project area committee.*

3. Read the conflict of interest code to verify that it either addresses or establishes parameters that define financial interests in real property, investments, and other business income sources or positions. *Government Code §87203.*
4. Test the agency's filed public disclosure statements to verify that it uses the forms prescribed by the Fair Political Practices Commission and that these statements are filed annually. *California Code of Regulations, Title 2, §18700 - 18753 and Government Code §87207.*

*Public disclosure statements should require disclosure of financial interests in real property, investments, and other business income sources or positions. Government Code §87103, §87201, §87206, §87207, and §87209 define income, financial interests, property interests, business income and positions, and minimum dollar values that must be reported.*

# Notes

## Affordable Housing

1. Pursuant to Health & Safety Code §33334.2(a), agencies may **exempt** all or part of the 20% set-aside if one of three specified conditions is met: (1) the community does not need to increase, improve, or preserve the supply of housing for very low, low-, and moderate-income households; (2) a percentage less than 20% will be sufficient to meet the community's need to improve, increase, and preserve the supply of housing for very low-, low-, and moderate-income households; and (3) the community is making a substantial effort to meet its existing and projected housing needs. These conditions must be established annually by resolution, as a finding, and reported within ten days of enactment of the resolution to the Department of Housing and Community Development. In addition, the finding must be supported by, and may include in its body of information, factual information that supports the need to exempt the set-aside deposit.

For agencies having exemptions, it will be necessary to determine that the findings contain, and are supported by, the required documentation outlined in Health & Safety Code §33334.2(a)(1)(B), (a)(2)(B), or (a)(3)(B) and (C). Additionally, exemption findings made pursuant to Health & Safety Code §33334.2(a)(3)(A) must show evidence that the agency entered into contractual obligations prior to May 1, 1991, and that the exemption currently is necessary to pay off this indebtedness.

2. Pursuant to Health & Safety Code §33334.6(d), agencies having plan adoptions or amendments made prior to January 1, 1977, may **defer**, rather than exempt, all or part of the 20% set-aside if they establish through a resolution that there are eligible pre-existing financial obligations that require the use of the money which otherwise would have been used for deposit into the Housing Fund. The financial obligations, however, must relate to eligible affordable housing purposes of which the Housing Fund is required.

Deferrals, unlike exemptions, must be repaid. Therefore, agencies need to show their adopted plan of repayment. Additionally, to provide the public with a disclosure, the agency must have adopted a statement of existing obligations prior to September 1, 1986. This statement must have been submitted to the Department of Housing and Community Development within fifteen days preceding the public meeting required to adopt the plan, and must describe each existing obligation, the annual payments, and its date of discharge. *Health & Safety Code §33334.6(f)*.

3. Eligible planning and general administrative costs that may be paid from the Housing Fund are limited to the following:
  - a) Costs incurred for salaries, wages, and related costs by agency staff or for similar services provided through interagency agreements and agreements with contractors. Ordinary and reasonable related indirect costs may be included.
  - b) Costs incurred by nonprofit corporations that are not directly attributable to specific projects.

Eligible program and project costs are listed and authorized under Health & Safety Code §33334.2(e). Costs directly linked to a project or program authorized under §33334.2(e) are considered project costs, rather than planning and administrative. These types of costs include: legal, architectural, engineering costs, or other salaries, wages, and costs directly attributed to an authorized project. Also, direct costs incurred by a nonprofit housing sponsor are considered project costs, not eligible planning and administrative costs.

4. Pursuant to Health & Safety Code §33334.12, the two priorities for expenditure of excess surplus are as follows.
  - a) After one year from date money became excess surplus, the agency voluntarily disbursed its excess surplus to the county housing authority or to another public agency exercising housing development powers within the territorial jurisdiction of the agency.
  - b) The agency either expended or encumbered its excess surplus within three years following the date in which the money became excess surplus.

If an agency has not expended or encumbered its excess surplus after three years has elapsed from the date the money became excess surplus, the agency shall be subject to sanctions until the agency does expend or encumber its excess surplus. The sanctions will equal the amount of excess surplus plus an additional amount of money from funds other than the Housing Fund equal to 50% of the amount of excess surplus money.

### **Redevelopment Plans**

1. Pursuant to Health & Safety Code §33320.1, the named project area should have been determined by a finding that it qualifies for redevelopment as a blighted area. A blighted area is one that is predominately urbanized and in which the combination of statutorily enumerated conditions are so prevalent and substantial that it causes a reduction or lack of proper utilization of an area to the extent of constituting a serious physical and economic burden on the community. This burden cannot reasonably be expected to be reversed by private and/or governmental action without redevelopment. The agency must show evidence of blight, or define the blight, in terms of physical and economic conditions. Refer to Health & Safety Code §33031 for a complete description of qualifying physical and economic conditions.
2. Verify the housing element of the community's general plan by obtaining a copy of the approval letter from the Department of Housing and Community Development. *Health & Safety Code §33302.*

## Appendix A – Compliance and Internal Control Report Example

Board of Directors  
Example Redevelopment Agency  
City, State

### **Report On Compliance and On Internal Control Over Financial Reporting Based On an Audit of Financial Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of **Example Redevelopment Agency** as of and for the year ended June 30, 1997, and have issued our report thereon dated [last day of field work]. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the financial statements of the **Example Redevelopment Agency** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Example Redevelopment Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving internal control over financial reporting that we have reported to management of **Example Redevelopment Agency** in a separate letter dated [date of report].

This report is intended for the information of the Audit committee, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

[last day of field work]

## Appendix B — Excess Surplus Calculation Procedures and Examples

“Excess surplus” is defined as any unexpended and unencumbered amount that exceeds the greater of \$1,000,000 or the aggregate amount deposited to the Housing Fund during the preceding four fiscal years. By statute, the first date on which excess surplus can exist is July 1, 1994, with deposits measured from fiscal year 1989-90. Therefore, the first computation uses fiscal years 1989-90, 1990-91, 1991-92, and 1992-93, which are the four fiscal years preceding the 1993-94 year.

If excess surplus exists, management should prepare an appropriate course of action to eliminate the excess in the following fiscal year. Essentially, agencies have a three-year window to expend, encumber, or transfer the excess surplus. For example, an agency having excess surplus funds on July 1, 1997, has until July 1, 1998, to decide to transfer the funds to a housing authority or other public agency, or until July 1, 2000, to expend or encumber those funds. Refer to Health & Safety Code §33334.12.

*Some terms used by the Department of Housing and Community Development (HCD) in its annual reporting forms (Schedule HCD-C) differ from terms common to generally accepted accounting principles (GAAP) and to the State Controller’s Uniform Chart of Accounts for Redevelopment Agencies. However, both approaches should arithmetically agree in results, and to aid practitioners, examples of both approaches are presented. The GAAP-basis schedule is presented in cooperation with the California Society of Certified Public Accountants.*

### **Excess Surplus Calculation Procedures**

1. **Calculate the unencumbered balance.** The unencumbered balance for the fiscal year being audited is determined by subtracting current year encumbrances committed pursuant to agreements or contracts authorized for allowable expenditure of the Housing Fund, as referenced in Health & Safety Code §33334.12(g)(2), from the net resources available at the end of the year.
2. **Calculate the adjusted balance.** The adjusted balance is determined by subtracting from the unencumbered balance any unspent debt proceeds remaining in the Fund, if Health & Safety Code §33334.12(g)(3)(B) applies, and/or subtracting any deficit realized through the conveyance of land for an amount less than its fair market value if Health & Safety Code §33334.12(g)(3)(A) applies. The deficit amount equals the difference between the land’s fair market value and the amount the agency received (or sales price) where the agency sells, leases, or grants land acquired with money from the Housing Fund.
3. **Determine whether excess surplus exists.** Compare the adjusted balance and the aggregate amount of tax increment deposited into the Housing Fund during the preceding four fiscal years. If the adjusted balance exceeds \$1,000,000 and is greater than the sum of aggregate tax increment for the four preceding fiscal years, then excess surplus exists. If the adjusted balance does not exceed \$1,000,000 or is less than the sum of aggregate tax increment for the four preceding fiscal years, then excess surplus does not exist.
4. **Calculate excess surplus as follows.**
  - a) If the sum of the aggregate tax increment for the four preceding fiscal years is less than \$1,000,000, then excess surplus equals the adjusted balance minus \$1,000,000.

- b) If the sum of the aggregate tax increment for the four preceding fiscal years is more than \$1,000,000, then excess surplus equals the adjusted balance minus the sum of tax increment for the four preceding fiscal years.

**Examples:** Based on the methodology prescribed by HCD, three scenarios are presented to demonstrate the calculations and HCD's annual reporting requirements. Immediately following these three examples, a fourth schedule entitled "Computation of Low and Moderate Housing Fund Excess/Surplus Funds" is presented to demonstrate how excess surplus can be calculated under a GAAP-based approach. An **important** aspect of this schedule is that Fund Balance both presents the changes and activities occurring during the year and reconciles with Net Resources Available at the end of the year. Also, note the first three project areas in the GAAP-based schedule correspond to the three HCD examples. In practice, however, only one Schedule HCD-C is prepared by an agency for all project areas and there may be variations in financial accounting and reporting systems whereby some classifications or presentations could be slightly different.



## Example 1

### *1. Calculate the Unencumbered Balance.*

On page 1 of 3 (Schedule HCD-C), the Redevelopment Agency's Beginning Cash and Investment Balance (line 1) is \$3,600,000; Total Receipts from Project Areas (line 2) is \$400,000; and its Subtotal of Expenditures and Uses (line 3) is \$1,900,000. These amounts result in the Net Resources Available (End of Year) (line 4) of \$2,100,000.

Subtracting the Total Encumbrances (line 5)--all of which have agreements or contracts, as defined in the Health & Safety Code §33334.12(g)(2)--in an amount \$600,000 from the Net Resources Available of \$2,100,000, results in an Unencumbered Balance (line 6) of \$1,500,000.

### *2. Calculate the Adjusted Balance.*

The Unencumbered Balance, Line 6, of \$1,500,000 is transferred to line 9b (page 3 of 3 for Example 1) and then the Debt Proceeds of \$700,000, as defined in Health & Safety Code §33334.12(g)(3)(B), are subtracted to arrive at the Adjusted Balance of \$800,000.

**Remember:** Only the Debt Proceed balance **still remaining** (not the original debt proceed amount) in the Housing Fund can be deducted from the Unencumbered Balance to determine the Adjusted Balance.

In this example, the original debt proceed amount was \$1,000,000, but \$700,000 is the balance of debt proceed that remains in the Housing Fund as of June 30, ending the fiscal year.

### *3. Determine whether Excess Surplus exists.*

Example 1 assumes that the Total Tax Increment Deposited in the Housing Fund for the previous four years is \$1,100,000.

**No excess surplus exists** because the Adjusted Balance does not exceed the \$1,000,000 floor.

## EXAMPLE 1

**SCHEDULE HCD-C**  
Agency-wide Activity  
for Fiscal Year ended 06/30/98

Agency Name: Example Redevelopment Agency

Preparer's Name, Title:

Preparer's Telephone No:

Preparer's Facsimile:

Preparer's E-Mail Address:

**Low & Moderate Income Housing Funds**

Report on the "status and use of the agency's Low and Moderate Income Housing Fund," including information developed to comply with § 33080.4(a)(6) and (a)(8). Information reported here should be based on that reported to the State Controller.

1. Beginning Cash and Investment Balance  
(Should equal Line 4, "Net Resources Available" from last year's HCD-C form): \$ 3,600,000

If Beginning Balance is not the same as Line 4 from Schedule HCD-C for FY 96/97, indicate the amount of, and reason(s) for, the difference: \_\_\_\_\_.

2. Revenues:
- a. Total Receipts From Project Areas:  
(Sum of amount(s) from line 3.l. on Schedule HCD-A(s)): \$ 400,000
- b. Other revenues not reported on Schedule HCD-A(s)  
(Specify: \_\_\_\_\_): \$ \_\_\_\_\_
3. Subtotal of Expenditures and **Uses** (combine a.-l. below): \$ (1,900,000)

(NOTE: The line items below were expanded to include specific line items from the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, to facilitate preparation of the report. However, always refer to the Community Redevelopment Law to determine the appropriateness of these expenditures from the Low & Moderate Income Housing Fund.)

- a. Property Acquisition
- |   |              |
|---|--------------|
| Acquisition of Property/Building Sites (33334.2(e)(1)):   | \$ 1,000,000 |
| Housing Acquisition (33334.2(e)(6)):                      | \$ _____     |
| Acquisition Expense (Line 20c):                           | \$ _____     |
| Operation of Acquired Property (Line 21c):                | \$ _____     |
| Relocation Costs (Line 22c):                              | \$ _____     |
| Relocation Payments (Line 23c):                           | \$ _____     |
| Site Clearance Costs (Line 24c):                          | \$ _____     |
| Disposal Costs (Line 26c):                                | \$ _____     |
| Loss on Disposition of Land Held for Resale (Line 26.1c): | \$ _____     |
| Decline in Value of Land Held for Resale (Line 26.2c):    | \$ _____     |
| Other (Specify) _____:                                    | \$ _____     |
- b. Housing subsidies (33334.2(e)(8)):
- |   |            |
|---|------------|
| 1 <sup>st</sup> Time Homebuyer Down Payment Assistance: | \$ 100,000 |
| Rental Subsidies:                                       | \$ _____   |
| Other (Specify) _____:                                  | \$ _____   |

**EXAMPLE 1**

Agency Name: \_\_\_\_\_

c. Debt Service (33334.2(e)(9)):

## Debt Principal Payments:

Tax Allocation, Bonds &amp; Notes (Line 33c): \$ 150,000

Revenue Bonds &amp; Certificates of Participation (Line 34c.) \$ \_\_\_\_\_

City/County Advances &amp; Loans (Line 35c): \$ \_\_\_\_\_

U. S. State &amp; Other Long -Term Debt (Line 36c): \$ \_\_\_\_\_

Interest Expense (Line 29c): \$ \_\_\_\_\_

Debt Issuance Costs (Line 31.1c): \$ \_\_\_\_\_

Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

d. Planning and Administration Costs (33334.3(e)(1)):

Administration Costs (Line 14c): \$ \_\_\_\_\_

Professional Services (not project based) (Line 15c): \$ 300,000

Planning, Survey/Design (not project based) (Line 16c): \$ 100,000

Indirect Nonprofit Costs (33334.3(e)(1)(B)): \$ \_\_\_\_\_

Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

e. On/Off-Site Improvements (33334.2(e)(2)): \$ \_\_\_\_\_f. Housing Construction (33334.2(e)(5)): \$ \_\_\_\_\_g. Housing Rehabilitation (33334.2(e)(7)), (Line 27c): \$ 250,000h. Maintenance of Mobilehome Parks (33334.2(e)(10)): \$ \_\_\_\_\_i. Preservation of At-Risk Units (33334.2(e)(11)): \$ \_\_\_\_\_j. Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_*Transfers Out: The specific use of transferred funds should be reported in items a-j, above.**Note: Dollar amounts for items 3a., 3c., 3d., and 3g. (where a line number is noted in parentheses) can be taken directly from that line number on the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, Consolidated Income Statement.*

4. Net Resources Available (End of Year [1.+2a.+2b.-3.]): \$ 2,100,000

5. Total Encumbrances (End of Year)-see §33334.12(g)(2) for a definition.  
(Amount of line 4 encumbered per agreement or contract): \$ ( 600,000)

6. Unencumbered Balance (End of Year [4.-5.]): Enter this amount here and on line 9b.1 \$ 1,500,000

## 7. Unencumbered Funds:

a. Unencumbered Designated (portion of line 6) \$ 700,000

b. Unencumbered Undesignated (portion of line 6) \$ 800,000

## 8. Other Housing Fund Assets (not included on Line 4, above):

a. Value of Land Purchased Housing Funds and  
Held for Development of Affordable Housing: \$ 1,800,000

b. Indebtedness for Set-asides Deferred (Sec. 33334.6): \$ \_\_\_\_\_

c. Loans Receivable for Housing Activities: \$ \_\_\_\_\_

d. Residual Receipt Loans \$ \_\_\_\_\_

e. Other Assets (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

9. Net Resources Available (End of Year)  
plus Other Housing Fund Assets (4.+8a. through 8e.): \$ 3,900,000

**EXAMPLE 1****Excess Surplus**

Pursuant to § 33080.7, report any excess surplus funds (as defined in §33334.12). An excess surplus exists for a fiscal year if the unencumbered balance in the Housing Fund at year end exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the preceding four fiscal years. "Encumbering" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities. In accordance with §33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for revenue added from debt proceeds or the difference between the sales price of land for affordable housing and its fair market value.

9.a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 93/94.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments in Housing Fund from Previous Four FYs	Total Unencumbered Balance in Housing Fund at End of FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of 6/30/98	Remaining Excess Surplus, for each FY, as of 6/30/98
93-94	\$ 200,000			\$ _____	\$ _____	\$ _____
94-95	\$ 250,000			\$ _____	\$ _____	\$ _____
95-96	\$ 300,000			\$ _____	\$ _____	\$ _____
96-97	\$ 350,000			\$ _____	\$ _____	\$ _____
97-98		\$1,100,000	\$ 800,000	\$ 0		

\* Unencumbered balances for FY 97-98 should equal item 6 on previous page unless adjustments are made per 9.b., below.

b. Are you eligible to adjust the total unencumbered balance? If yes, identify the type and amount of the adjustment below:

1. Unencumbered balance from line 6 on previous page:	\$ 1,500,000
2. Adjustments:	
Debt Proceeds (33334.12(g)(3)(B):	\$ ( 700,000)
Land Sales (33334.12(g)(3)(A):	\$ ( _____)
3. Adjusted Balance:	
Enter this amount in the "Total Unencumbered Balance in Housing Fund at End of FY" column, for FY 97-98 (above).	\$ 800,000

c. If you reported an excess surplus for the current fiscal year, briefly summarize the agency's plan (authorized in §33334.10) for encumbering or expending that amount:

d. If plan described in 9.c. was adopted, give adoption date: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

## Example 2

### *1. Calculate the Unencumbered Balance (same facts as Example 1).*

The Redevelopment Agency's Beginning Cash and Investment Balance is \$3,600,000; the Total Receipts from Project Areas is \$1,100,000; and its Subtotal of Expenditures and Uses is \$1,900,000. These amounts result in the Net Resources Available (End of Year) of \$2,800,000.

Subtracting the Total Encumbrances in an amount \$600,000 from the Net Resources Available of \$2,800,000 results in an Unencumbered Balance of \$2,200,000.

### *2. Calculate the Adjusted Balance.*

This example (Example 2) includes land value in the Housing Fund of \$1,000,000, which has been sold to an affordable housing developer for \$700,000. The \$300,000 difference may be subtracted from the Unencumbered Balance to determine the Adjusted Balance.

The Unencumbered Balance of \$2,200,000 on line 6 is transferred to line 9b (see page 3 of 3 for Example 2). The Land Sales difference of \$300,000, as defined in Health & Safety Code §33334.12(g)(3)(A), may be now subtracted to arrive at the Adjusted Balance of \$1,900,000.

**Remember:** If an agency sells, leases, or grants land acquired with money from the Housing Fund for an amount that is below the fair market value, and if at least 49% of the units constructed or rehabilitated on the land are affordable to lower-income households, then the difference between the fair market value of the land and the amount the agency receives may be subtracted from the amount of money in the agency's Housing Fund.

### *3. Determine whether Excess Surplus exists.*

Example 2 assumes that the Total Tax Increments Deposited in the Housing Fund for the previous four years is \$1,100,000.

In this case, **excess surplus exists**. It exists because the Adjusted Balance of \$1,900,000 exceeds both the Total Tax Increments Deposited in the Housing Fund for the previous four years of \$1,100,000, and exceeds the \$1,000,000 floor.

### *4. Calculate Excess Surplus as follows.*

If the sum of the tax increment for the four preceding fiscal years is more than \$1,000,000, excess surplus equals the adjusted balance minus the sum of tax increment for the four preceding fiscal years. The sum of tax increment for the four preceding fiscal years of \$1,100,000 was subtracted from the Adjusted Balance of \$1,900,000 to determine an Excess Surplus amount of \$800,000.

## EXAMPLE 2

**SCHEDULE HCD-C**  
Agency-wide Activity  
for Fiscal Year ended 06/30/98

Agency Name: Example Redevelopment Agency

Preparer's Name, Title:

Preparer's Telephone No:

Preparer's Facsimile:

Preparer's E-Mail Address:

**Low & Moderate Income Housing Funds**

Report on the "status and use of the agency's Low and Moderate Income Housing Fund," including information developed to comply with § 33080.4(a)(6) and (a)(8). Information reported here should be based on that reported to the State Controller.

1. Beginning Cash and Investment Balance  
(Should equal Line 4, "Net Resources Available" from last year's HCD-C form): \$ 3,600,000

If Beginning Balance is not the same as Line 4 from Schedule HCD-C for FY 96/97, indicate the amount of, and reason(s) for, the difference: \_\_\_\_\_.

2. Revenues:
- a. Total Receipts From Project Areas:  
(Sum of amount(s) from line 3.l. on Schedule HCD-A(s)): \$ 1,100,000
- b. Other revenues not reported on Schedule HCD-A(s)  
(Specify: \_\_\_\_\_): \$ \_\_\_\_\_
4. Subtotal of Expenditures and **Uses** (combine a.-l. below): \$ (1,900,000)

(NOTE: The line items below were expanded to include specific line items from the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, to facilitate preparation of the report. However, always refer to the Community Redevelopment Law to determine the appropriateness of these expenditures from the Low & Moderate Income Housing Fund.)

- a. Property Acquisition
- |   |              |
|---|--------------|
| Acquisition of Property/Building Sites (33334.2(e)(1)):   | \$ 1,000,000 |
| Housing Acquisition (33334.2(e)(6)):                      | \$ _____     |
| Acquisition Expense (Line 20c):                           | \$ _____     |
| Operation of Acquired Property (Line 21c):                | \$ _____     |
| Relocation Costs (Line 22c):                              | \$ _____     |
| Relocation Payments (Line 23c):                           | \$ _____     |
| Site Clearance Costs (Line 24c):                          | \$ _____     |
| Disposal Costs (Line 26c):                                | \$ _____     |
| Loss on Disposition of Land Held for Resale (Line 26.1c): | \$ _____     |
| Decline in Value of Land Held for Resale (Line 26.2c):    | \$ _____     |
| Other (Specify) _____:                                    | \$ _____     |
- b. Housing subsidies (33334.2(e)(8)):
- |   |            |
|---|------------|
| 1 <sup>st</sup> Time Homebuyer Down Payment Assistance: | \$ 100,000 |
| Rental Subsidies:                                       | \$ _____   |
| Other (Specify) _____:                                  | \$ _____   |

## EXAMPLE 2

Agency Name: \_\_\_\_\_

c. Debt Service (33334.2(e)(9)):

## Debt Principal Payments:

Tax Allocation, Bonds &amp; Notes (Line 33c): \$ 150,000

Revenue Bonds &amp; Certificates of Participation (Line 34c.) \$ \_\_\_\_\_

City/County Advances &amp; Loans (Line 35c): \$ \_\_\_\_\_

U. S. State &amp; Other Long -Term Debt (Line 36c): \$ \_\_\_\_\_

Interest Expense (Line 29c): \$ \_\_\_\_\_

Debt Issuance Costs (Line 31.1c): \$ \_\_\_\_\_

Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

d. Planning and Administration Costs (33334.3(e)(1)):

Administration Costs (Line 14c): \$ \_\_\_\_\_

Professional Services (not project based) (Line 15c): \$ 300,000

Planning, Survey/Design (not project based) (Line 16c): \$ 100,000

Indirect Nonprofit Costs (33334.3(e)(1)(B)): \$ \_\_\_\_\_

Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

e. On/Off-Site Improvements (33334.2(e)(2)): \$ \_\_\_\_\_f. Housing Construction (33334.2(e)(5)): \$ \_\_\_\_\_g. Housing Rehabilitation (33334.2(e)(7)), (Line 27c): \$ 250,000h. Maintenance of Mobilehome Parks (33334.2(e)(10)): \$ \_\_\_\_\_i. Preservation of At-Risk Units (33334.2(e)(11)): \$ \_\_\_\_\_j. Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_*Transfers Out: The specific use of transferred funds should be reported in items a-j, above.**Note: Dollar amounts for items 3a., 3c., 3d., and 3g. (where a line number is noted in parentheses) can be taken directly from that line number on the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, Consolidated Income Statement.*

4. Net Resources Available (End of Year [1.+2a.+2b.-3.]): \$ 2,800,000

5. Total Encumbrances (End of Year)-see §33334.12(g)(2) for a definition.  
(Amount of line 4 encumbered per agreement or contract): \$ ( 600,000)

6. Unencumbered Balance (End of Year [4.-5.]): Enter this amount here and on line 9b.1 \$ 2,200,000

## 7. Unencumbered Funds:

a. Unencumbered Designated (portion of line 6) \$ 700,000

b. Unencumbered Undesignated (portion of line 6) \$ 800,000

## 8. Other Housing Fund Assets (not included on Line 4, above):

a. Value of Land Purchased Housing Funds and  
Held for Development of Affordable Housing: \$ 1,800,000

b. Indebtedness for Set-asides Deferred (Sec. 33334.6): \$ \_\_\_\_\_

c. Loans Receivable for Housing Activities: \$ \_\_\_\_\_

d. Residual Receipt Loans \$ \_\_\_\_\_

e. Other Assets (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

9. Net Resources Available (End of Year)  
plus Other Housing Fund Assets (4.+8a. through 8e.): \$ 3,900,000

**EXAMPLE 2****Excess Surplus**

Pursuant to §33080.7, report any excess surplus funds (as defined in §33334.12). An excess surplus exists for a fiscal year if the unencumbered balance in the Housing Fund at year end exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the preceding four fiscal years. "Encumbering" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities. In accordance with §33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for revenue added from debt proceeds or the difference between the sales price of land for affordable housing and its fair market value.

9.a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 93/94.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments in Housing Fund from Previous Four FYs	Total Unencumbered Balance in Housing Fund at End of FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of 6/30/98	Remaining Excess Surplus, for each FY, as of 6/30/98
93-94	\$ 200,000			\$ _____	\$ _____	\$ _____
94-95	\$ 250,000			\$ _____	\$ _____	\$ _____
95-96	\$ 300,000			\$ _____	\$ _____	\$ _____
96-97	\$ 350,000			\$ _____	\$ _____	\$ _____
97-98		\$1,100,000	\$1,900,000	\$ 800,000		

\* Unencumbered balances for FY 97-98 should equal item 6 on previous page unless adjustments are made per 9.b., below.

b. Are you eligible to adjust the total unencumbered balance? If yes, identify the type and amount of the adjustment below:

1. Unencumbered balance from line 6 on previous page: \$ 2,200,000
2. Adjustments:
  - Debt Proceeds (33334.12(g)(3)(B): \$ ( \_\_\_\_\_ )
  - Land Sales (33334.12(g)(3)(A): \$ ( 300,000 )
3. Adjusted Balance:
  - Enter this amount in the "Total Unencumbered Balance in Housing Fund at End of FY" column, for FY 97-98 (above). \$ 1,900,000

c. If you reported an excess surplus for the current fiscal year, briefly summarize the agency's plan (authorized in §33334.10) for encumbering or expending that amount:

d. If plan described in 9.c. was adopted, give adoption date: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_



### Example 3

**1. Calculate the Unencumbered Balance (same facts as Example 1).**

The Redevelopment Agency's Beginning Cash and Investment Balance is \$3,600,000; the Total Receipts from Project Areas is \$400,000; and its Subtotal of Expenditures and Uses is \$1,900,000. These amounts result in the Net Resources Available (End of Year) of \$2,100,000.

Subtracting the Total Encumbrances in an amount \$600,000 from the Net Resources Available of \$2,100,000 results in an Unencumbered Balance of \$1,500,000.

**2. Calculate the Adjusted Balance.**

The Unencumbered Balance of \$1,500,000 is transferred from line 6 to line 9b. Since there are no adjustments in this example (Example 3), the Adjusted Balance **equals** the Unencumbered Balance.

**3. Determine whether Excess Surplus exists.**

Example 3 assumes that the Total Tax Increments Deposited in the Housing Fund for the previous four years is \$990,000.

In this case, **excess surplus exists**. It exists because the Adjusted Balance of \$1,500,000 exceeds both the Total Tax Increments Deposited in the Housing Fund for the previous four years of \$990,000, and exceeds the \$1,000,000 floor.

**4. Calculate Excess Surplus as follows.**

If the sum of the tax increment for the four preceding fiscal years is less than \$1,000,000, excess surplus equals the Adjusted Balance minus \$1,000,000. Therefore, the Adjusted Balance of \$1,500,000 less the \$1,000,000 floor equals an Excess Surplus of \$500,000.

EXAMPLE 3

**SCHEDULE HCD-C**  
Agency-wide Activity  
for Fiscal Year ended 06/30/98

Agency Name: Example Redevelopment Agency

Preparer's Name, Title:

Preparer's Telephone No:

Preparer's Facsimile:

Preparer's E-Mail Address:

**Low & Moderate Income Housing Funds**

Report on the "status and use of the agency's Low and Moderate Income Housing Fund," including information developed to comply with § 33080.4(a)(6) and (a)(8). Information reported here should be based on that reported to the State Controller.

1. Beginning Cash and Investment Balance  
(Should equal Line 4, "Net Resources Available" from last year's HCD-C form): \$ 3,600,000

If Beginning Balance is not the same as Line 4 from Schedule HCD-C for FY 96/97, indicate the amount of, and reason(s) for, the difference: \_\_\_\_\_.

2. Revenues:

- a. Total Receipts From Project Areas:  
(Sum of amount(s) from line 3.l. on Schedule HCD-A(s)): \$ 400,000

- b. Other revenues not reported on Schedule HCD-A(s)  
(Specify: \_\_\_\_\_): \$ \_\_\_\_\_

5. Subtotal of Expenditures and **Uses** (combine a.-l. below): \$ (1,900,000)

(NOTE: The line items below were expanded to include specific line items from the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, to facilitate preparation of the report. However, always refer to the Community Redevelopment Law to determine the appropriateness of these expenditures from the Low & Moderate Income Housing Fund.)

a. **Property Acquisition**

Acquisition of Property/Building Sites (33334.2(e)(1)):	\$ 1,000,000
Housing Acquisition (33334.2(e)(6)):	\$ _____
Acquisition Expense (Line 20c):	\$ _____
Operation of Acquired Property (Line 21c):	\$ _____
Relocation Costs (Line 22c):	\$ _____
Relocation Payments (Line 23c):	\$ _____
Site Clearance Costs (Line 24c):	\$ _____
Disposal Costs (Line 26c):	\$ _____
Loss on Disposition of Land Held for Resale (Line 26.1c):	\$ _____
Decline in Value of Land Held for Resale (Line 26.2c):	\$ _____
Other (Specify) _____:	\$ _____

b. **Housing subsidies** (33334.2(e)(8)):

1 <sup>st</sup> Time Homebuyer Down Payment Assistance:	\$ 100,000
Rental Subsidies:	\$ _____
Other (Specify) _____:	\$ _____

**EXAMPLE 3**

Agency Name: \_\_\_\_\_

c. Debt Service (33334.2(e)(9)):

## Debt Principal Payments:

Tax Allocation, Bonds &amp; Notes (Line 33c): \$ 150,000

Revenue Bonds &amp; Certificates of Participation (Line 34c.) \$ \_\_\_\_\_

City/County Advances &amp; Loans (Line 35c): \$ \_\_\_\_\_

U. S. State &amp; Other Long -Term Debt (Line 36c): \$ \_\_\_\_\_

Interest Expense (Line 29c): \$ \_\_\_\_\_

Debt Issuance Costs (Line 31.1c): \$ \_\_\_\_\_

Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

d. Planning and Administration Costs (33334.3(e)(1)):

Administration Costs (Line 14c): \$ \_\_\_\_\_

Professional Services (not project based) (Line 15c): \$ 300,000

Planning, Survey/Design (not project based) (Line 16c): \$ 100,000

Indirect Nonprofit Costs (33334.3(e)(1)(B)): \$ \_\_\_\_\_

Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

e. On/Off-Site Improvements (33334.2(e)(2)): \$ \_\_\_\_\_

f. Housing Construction (33334.2(e)(5)): \$ \_\_\_\_\_

g. Housing Rehabilitation (33334.2(e)(7)), (Line 27c): \$ 250,000

h. Maintenance of Mobilehome Parks (33334.2(e)(10)): \$ \_\_\_\_\_

i. Preservation of At-Risk Units (33334.2(e)(11)): \$ \_\_\_\_\_

j. Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

*Transfers Out: The specific use of transferred funds should be reported in items a-j, above.**Note: Dollar amounts for items 3a., 3c., 3d., and 3g. (where a line number is noted in parentheses) can be taken directly from that line number on the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, Consolidated Income Statement.*

4. Net Resources Available (End of Year [1.+2a.+2b.-3.]): \$ 2,100,000

5. Total Encumbrances (End of Year)-see §33334.12(g)(2) for a definition.  
(Amount of line 4 encumbered per agreement or contract): \$ ( 600,000)

6. Unencumbered Balance (End of Year [4.-5.]): Enter this amount here and on line 9b.1 \$ 1,500,000

## 7. Unencumbered Funds:

a. Unencumbered Designated (portion of line 6) \$ 700,000

b. Unencumbered Undesignated (portion of line 6) \$ 800,000

## 8. Other Housing Fund Assets (not included on Line 4, above):

a. Value of Land Purchased Housing Funds and  
Held for Development of Affordable Housing: \$ 1,800,000

b. Indebtedness for Set-asides Deferred (Sec. 33334.6): \$ \_\_\_\_\_

c. Loans Receivable for Housing Activities: \$ \_\_\_\_\_

d. Residual Receipt Loans \$ \_\_\_\_\_

e. Other Assets (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

9. Net Resources Available (End of Year)  
plus Other Housing Fund Assets (4.+8a. through 8e.): \$ 3,900,000

97/98

HCD-C  
Page 2 of 3

**EXAMPLE 3****Excess Surplus**

Pursuant to §33080.7, report any excess surplus funds (as defined in §33334.12). An excess surplus exists for a fiscal year if the unencumbered balance in the Housing Fund at year end exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the preceding four fiscal years. "Encumbering" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities. In accordance with §33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for revenue added from debt proceeds or the difference between the sales price of land for affordable housing and its fair market value.

9.a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 93/94.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments in Housing Fund from Previous Four FYs	Total Unencumbered Balance in Housing Fund at End of FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of 6/30/98	Remaining Excess Surplus, for each FY, as of 6/30/98
93-94	\$ 200,000			\$ _____	\$ _____	\$ _____
94-95	\$ 225,000			\$ _____	\$ _____	\$ _____
95-96	\$ 230,000			\$ _____	\$ _____	\$ _____
96-97	\$ 335,000			\$ _____	\$ _____	\$ _____
97-98		\$ 990,000	\$1,500,000	\$ 500,000		

\* Unencumbered balances for FY 97-98 should equal item 6 on previous page unless adjustments are made per 9.b., below.

b. Are you eligible to adjust the total unencumbered balance? If yes, identify the type and amount of the adjustment below:

1. Unencumbered balance from line 6 on previous page: \$ 1,500,000
2. Adjustments:
  - Debt Proceeds (33334.12(g)(3)(B): \$ (\_\_\_\_\_)
  - Land Sales (33334.12(g)(3)(A): \$ (\_\_\_\_\_)
3. Adjusted Balance:
  - Enter this amount in the "Total Unencumbered Balance in Housing Fund at End of FY" column, for FY 97-98 (above). \$ 1,500,000

c. If you reported an excess surplus for the current fiscal year, briefly summarize the agency's plan (authorized in §33334.10) for encumbering or expending that amount:

d. If plan described in 9.c. was adopted, give adoption date: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

## EXAMPLE 4

Schedule \_\_

Example Redevelopment Agency  
Computation of Low and Moderate Housing Excess/Surplus Funds  
For the Fiscal Year Ended June 30, 1998

	Project Area 1	Project Area 2	Project Area 3	Project Area 4
<b>Fund Balance – Beginning of Year</b>	<u>\$ 5,400,000</u>	<u>\$ 5,400,000</u>	<u>\$ 5,400,000</u>	<u>\$ 5,400,000</u>
Adjustments (Explain: _____)	\$ —	\$ —	\$ —	\$ —
Less Unavailable Funds – Included in beginning fund balance:				
Land held for resale	(1,800,000)	(1,800,000)	(1,800,000)	(800,000)
Rehabilitation Loans	—	—	—	(1,000,000)
ERAF Loan Receivable	—	—	—	—
Set-Aside Deferrals	—	—	—	—
Other: _____	—	—	—	—
Total Unavailable Funds	<u>\$ (1,800,000)</u>	<u>\$ (1,800,000)</u>	<u>\$ (1,800,000)</u>	<u>\$ (1,800,000)</u>
<b>Available Fund Balance – Beginning of Year</b>	<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>
Current Year Proceeds/Uses (Actual plus changes in unavailable)				
Proceeds	400,000	1,100,000	400,000	400,000
Uses	(1,900,000)	(2,900,000)	(1,900,000)	(1,900,000)
Changes in Unavailable Amounts	—	1,000,000	—	700,000
<b>Available Fund Balance – End of Year</b>	<u>2,100,000</u>	<u>2,800,000</u>	<u>2,100,000</u>	<u>2,800,000</u>
Encumbrances	(600,000)	(600,000)	(600,000)	(600,000)
Unspent bond proceeds present	(700,000)	—	—	—
Land sales - HS 33334.12(g)(3)(A)	—	(300,000)	—	—
<b>Available Fund Balance – For Excess/Surplus</b>	<u>\$ 800,000</u>	<u>\$ 1,900,000</u>	<u>\$ 1,500,000</u>	<u>\$ 2,200,000</u>
Does Available Fund Balance for Excess/Surplus exceed \$1,000,000? If so, enter Available Fund Balance and evaluate that amount against tax increment. If less enter zero.	\$ —	\$ 1,900,000	\$ 1,500,000	\$ 2,200,000
Does Available Fund Balance for Excess/Surplus exceed the greater of prior four years set-aside deposits or \$1,000,000?				
Tax Increment Set-Aside Amounts				
Fiscal Year 1993-94	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Fiscal Year 1994-95	250,000	250,000	225,000	225,000
Fiscal Year 1995-96	300,000	300,000	230,000	230,000
Fiscal Year 1996-97	350,000	350,000	335,000	335,000
Total Set-Aside Deposited into Fund	<u>\$ 1,100,000</u>	<u>\$ 1,100,000</u>	<u>\$ 990,000</u>	<u>\$ 990,000</u>
Greater of Tax Increment Deposits or \$1,000,000	N/A	<u>\$ 1,100,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
<b>Excess/Surplus Funds</b>				
Greater of Available Fund Balance for Excess/Surplus or prior four years tax increment set-aside deposits.	<u>\$ —</u>	<u>\$ 800,000</u>	<u>\$ 500,000</u>	<u>\$ 1,200,000</u>

## EXAMPLE 4

Schedule \_\_\_\_

Example Redevelopment Agency  
Computation of Low and Moderate Housing Excess/Surplus Funds  
For the Fiscal Year Ended June 30, 1998

	<u>Project Area 1</u>	<u>Project Area 2</u>	<u>Project Area 3</u>	<u>Project Area 4</u>
<b>Reconciliation to Ending Fund Balance</b>				
Ending GAAP Fund Balance	<u>\$ 3,900,000</u>	<u>\$ 3,600,000</u>	<u>\$ 3,900,000</u>	<u>\$ 3,900,000</u>
Available Fund Balance – End of Year Above	\$ 2,100,000	\$ 2,800,000	\$ 2,100,000	\$ 2,800,000
Add Unavailable Funds – End of Year				
Land held for resale	\$ 1,800,000	\$ 800,000	\$ 1,800,000	\$ 800,000
Rehabilitation Loans	—	—	—	300,000
ERAF Loan Receivable	—	—	—	—
Set Aside-Deferrals	—	—	—	—
Other: _____	—	—	—	—
Total Unavailable Funds	<u>\$ 1,800,000</u>	<u>\$ 800,000</u>	<u>\$ 1,800,000</u>	<u>\$ 1,100,000</u>
Computed Ending Fund Balance	<u>\$ 3,900,000</u>	<u>\$ 3,600,000</u>	<u>\$ 3,900,000</u>	<u>\$ 3,900,000</u>

Notes relating to computations:

1 - The project area above for 1-3 conform to HCD examples in the draft guidelines with some amounts adjusted. These adjustments are explained below.

2 - Project 1 - This is example 1 and no adjustments are present.

3 - Project 2 - This is example 2.

Adjusted sale of land by increasing proceeds by \$700,000 (the amount from land sale).

Adjusted expenditures by increasing it \$1,000,000. This is the cost of the land, which would be transferred from the land held for resale account.

Recorded a change in unavailable funds for \$1,000,000. This represents the removal of this amount from unavailable funds as the fund balance was reduced by \$1,800,000, which by year-end was only \$800,000.

Total effect of adjustments for land held were \$700,000 in proceeds less \$1,000,000 cost plus \$1,000,000 unavailable adjustment, or \$700,000. Since this represents proceeds now received, it should be part of excess surplus calculation.

4 - Project 3 - This is example 3 and no adjustments are present.

5 - Project 4 - This is example 3 with a starting balance of \$1,000,000 in rehabilitation loans present. Land held unavailable has been reduced to \$800,000 to keep total unavailable unchanged. During the year, \$700,000 of loans are collected. Change in unavailable is present for \$700,000 received from these loans. No adjustment is made to proceeds or uses and the receivable is reduced and no revenue/expenditures results. Change in excess/surplus results from having \$700,000 more cash on hand.

## Appendix C — Housing Assistance

The affordable housing provisions contained in the California Redevelopment Law generally impose on all redevelopment agencies a requirement to make affordable housing available, through either direct or indirect development and assistance, to persons and families of targeted income levels. Along with the procedures noted previously in Section B, Affordable Housing, this appendix will aid the auditor in testing legal compliance for selected areas of housing assistance law – namely, those of “Replacement Housing” and “Project Area Housing Production,” but also those involving the use of an agency’s Housing Fund.

### Replacement Housing

#### *Requirement*

Pursuant to Health & Safety Code §33413 (a), when residential units housing low- or moderate-income persons are destroyed or taken out of the low- and moderate-income market as part of a redevelopment project, the agency must replace those units with new or rehabilitated low- and moderate-income units. This requirement applies in all project areas regardless of the date that the redevelopment plan or any amendments were established. This requirement applies to housing market removals, which result from either a written agreement with the jurisdictional redevelopment agency, or through the agency’s financial assistance. In some circumstances, however, it may not apply. For instance, if a private developer razes existing low- or moderate-income housing in a redevelopment project area, but has neither an agreement with nor receives any financial assistance (currently or planned) from the agency, then the agency is not obligated to replace the destroyed units.

If conditions exist that obligate the agency, then two aspects of the requirement must also be satisfied. First, the agency must replace the destroyed units within four years. Secondly, the agency must make the replacement units available at an affordable housing cost to persons and households of low and moderate income. In addition, 75% of the replacement units must be available at affordable housing cost to the same income level of households (very low, low, or moderate) as the persons who were displaced from the destroyed or removed units.

### Project Area Housing Production

#### *Requirement*

Pursuant to Health & Safety Code §33413(b), project areas created by redevelopment plans, or through additions of areas added by amendments that were adopted on or after January 1, 1976 (post 1976 plans), are subject to housing production requirements (also known as an “inclusionary” requirement) to ensure that specified percentages of new or rehabilitated housing is made available at affordable housing costs to low- and moderate-income households. The basic requirement has two components by subsection: one for housing developed entirely by the redevelopment agency, *Health & Safety Code §33413(b)(1)*; and another for all other housing developed within a project area under an agency’s territorial jurisdiction by either public or private developers or entities other than the agency, *Health & Safety Code §33413(b)(2)*.

#### *Agency Produced Housing*

Health & Safety Code §33413(b)(1) requires that 30% of the housing units developed or rehabilitated by an agency in a project area must be available at an affordable housing cost to low- and moderate-income persons or households. Of those units, 50% must be affordable to very low-income households. This 50% level means that 15%, (50% x 30%), of the total project area units developed or rehabilitated by the agency must be affordable to very low-income persons or households.

An agency may also meet its inclusionary obligation through acquisition of long-term affordability restrictions on **existing** multifamily units, *Health & Safety Code §33413(b)(2)(B)*. These units must either not be presently available at affordable housing cost to low- and moderate-income households or presently available but, through substantial evidence and public hearings, are not expected to remain affordable to these income level households. At least 50% of the existing multifamily units for which an agency acquires long-term affordability covenants in satisfaction of the inclusionary obligation must be made available at affordable housing cost to very low-income persons or families.

### ***Non-Agency Produced Housing***

Health & Safety Code §33413(b)(2) requires that 15% of the units developed or rehabilitated in a project area by public or private persons or entities other than the agency must be affordable to low- and moderate-income persons and households. Of those units, 40% must be affordable to very low-income households. This 40% requirement means that 6% of the total units must be affordable to households or persons at levels of very low income.

## **Duration of Affordability Requirements**

### ***Minimum Time Periods***

For **both Replacement Housing** and **Project Area Housing Production** requirements, pursuant to Health & Safety Code §33413(a) and (b), respectively, the units must remain affordable for the longest feasible time, but not less than the period of time the land use controls of the redevelopment plan remain in effect. This means, in general, that the minimum duration would be equal to the time remaining until the redevelopment plan expires. Note also that the minimum time cannot be less than thirty years if the units were made available through an acquisition of covenants and to meet a Project Area Housing Production requirement.

For **Housing Fund** assisted units that are not provided to meet either Replacement Housing or Project Area Housing Production and except to the extent a longer period of time may be required by other provisions of law, the units must remain available at an affordable housing cost to households of very low-, low-, and moderate-income levels for the **longest feasible time**, but not less than the following periods of time: 1) fifteen years for rental units; 2) ten years for owner-occupied units; and 3) thirty years, for both rented and owned, if units are produced in merged project areas, *Health and Safety Code §33334.14(b)*.

Note that the terms “longest feasible time” may be unlimited and may vary under different circumstances. For example, laws may mandate different time periods. The agency should be able to provide the appropriate information that these requirements have been met upon inquiry.

## **Enforcement of Affordability Requirements**

### ***Affordability Covenants***

The affordability controls on housing units must be made enforceable by recordation of covenants or restrictions with the county Recorder’s Office. The covenants or restrictions shall run with land and shall be enforceable against the original owner and successors in interest, by the agency or community.



## **Affordable Housing Cost Definition**

### ***Rental Housing***

Pursuant to Title 25, Code of Regulations, §6918, the housing cost of a rental (the rent) is defined to be the total of monthly payments for: a) use and occupancy of a housing unit, land, and facilities associated therewith; b) separately charged fees or service charges assessed by the lessor required from all tenants, other than security deposits; c) a reasonable allowance for utilities that are paid by the tenant, but not including telephone service; and d) any taxes or fees charged for the use of the land and facilities by an entity other than the lessor.

### ***Owner-Occupied Housing***

Pursuant to Title 25, Code of Regulations, §6920, the housing cost of a purchaser is all of the following costs associated with a specific housing unit: a) principal and interest on mortgage loans, and any loan fees associated therewith; b) property taxes and assessments; c) fire and casualty insurance; d) property maintenance and repairs; e) a reasonable allowance for utilities, not including telephone; f) homeowners association dues or fees; and g) space rent, if any.

## **Targeted Income Levels**

### ***Very Low Income Levels***

For rental housing to be available at affordable housing cost, annual rents, including utility allowance, may not exceed 30% of 50% of area median income, adjusted for family size appropriate for the unit. For owner-occupied housing to be available at affordable housing cost, the housing cost shall not exceed 30% of 50% of area median income, adjusted for family size appropriate for the unit.

### ***Low Income Levels***

For rental housing to be available at affordable housing cost, annual rents, including utility allowance, may not exceed 30% of 60% of area median income, adjusted for family size appropriate for the unit. Additionally, at the agency's option, if the household's gross income is between 60% and 80% of median income, rents may be set at a level not to exceed 30% of the household's actual gross income.

For owner-occupied housing to be available at affordable housing cost, the housing cost shall not exceed 30% of 70% of area median income, adjusted for family size appropriate for the unit. Additionally, at the agency's option, if the household's gross income is between 70% and 80% of median income, housing costs may be set at a level not to exceed 30% of the household's actual gross income.

### ***Moderate Income Levels***

For rental housing to be available at affordable housing cost, annual rents, including utility allowance, may not exceed 30% of 110% of area median income, adjusted for family size appropriate for the unit. Additionally, at the agency's option, if the household's gross income is between 110% and 120% of median income, rents may be set at a level not to exceed 30% of the household's actual gross income.

For owner-occupied housing to be available at affordable housing cost, the housing cost shall not exceed 35% of 110% of area median income, adjusted for family size appropriate for the unit, nor be less than 28% of the household's actual income. Additionally, at the agency's option, if the household's gross income exceeds 110% of median income, housing costs may be set at a level not to exceed 35% of the household's actual gross income.



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